

1-1-1979

## Washington report, vol. 8 no.9, April 30, 1979

American Institute of Certified Public Accountants.

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_news](https://egrove.olemiss.edu/aicpa_news)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

### Recommended Citation

American Institute of Certified Public Accountants., "Washington report, vol. 8 no.9, April 30, 1979" (1979). *Newsletters*. 724.  
[https://egrove.olemiss.edu/aicpa\\_news/724](https://egrove.olemiss.edu/aicpa_news/724)

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# AICPA *Washington Report*

---

April 30, 1979, Volume VIII, Issue 9

CWPS	Mandatory controls: Sen. McGovern proposes Presidential authority . . . . .	p. 1
	Price standard & procedural changes published. . . . .	p. 1
DOE	GAO report notes financial management problems . . . . .	p. 1
FEC	Public financing costs scaled down . . . . .	p. 1
FHLBB	S&L operating model to be developed to assist minorities . . . . .	p. 2
FRB	Appeals court rules against banking competition. . . . .	p. 2
	Consumer loan classification system released . . . . .	p. 2
HEW	Hospital cost containment bill clears first hurdle . . . . .	p. 2
	Long term care facility regs to be clarified . . . . .	p. 3
	Grant administration rules finalized for Head Start & Native American programs .	p. 3
DOL	Final reg on employer status re annuity & custodial accounts . . . . .	p. 3
OMB	Small & disadvantaged firms get subcontracting boost . . . . .	p. 3
SEC	Federal securities code still has far to go. . . . .	p. 4
	Commission upheld on environmental impact disclosure issue . . . . .	p. 4
	Policy statement on trading practices published. . . . .	p. 4
Treasury	Limits on industrial development mortgage bonds proposed . . . . .	p. 4
	119 fraud schemes detected by IRS. . . . .	p. 4
	Rules published on minimum participation standards for retirement plans. . . . .	p. 4
	Pension plan trustee rules include audit requirement . . . . .	p. 5
Special	High Court rules on reverse freedom of information . . . . .	p. 5

## COUNCIL ON WAGE AND PRICE STABILITY

Sen. George McGovern (D-SD) has introduced mandatory wage and price controls legislation. Reaching his conclusion "after many, many months of watching this steadily increasing inflationary pressure," Sen. McGovern stated that the economy is operating with a 13% annual rate of inflation which is unacceptable in terms of "any hope we might have to stabilize the economy." His bill, S.1022, "Economic Stabilization Act of 1979" would grant the President standby authority to impose controls. Such authority would automatically expire on September 30, 1981. Anticipating an outcry of criticism, Sen. McGovern stated his belief that controls, often criticized as ineffective, worked rather effectively during the 2nd World War and the Korean War, and even during 1971 and 1972. Cautioning that controls must be combined with some degree of fiscal and monetary restraint to keep too much pressure from building up behind the wage and price cap, he strongly indicated that his program could eventually evolve into a permanent government policy of stabilization over the "most concentrated areas of our economy." The base period for determination of necessary stabilization of prices, wages, rents, and salaries, would be April 26, 1979.

A notice published by the CWPS which modifies the price standard and adopts certain procedural rules appeared in the 4/20/79 Fed. Reg., pp.23776-81. The Council is strengthening the profit-margin limitation, requesting that intermediate-sized companies (\$250-500 million) furnish base period price and margin data and amending its exception procedures. Several of the procedural changes are being made in response to public comment. The modifications are effective as of 4/20/79 but comments will be accepted until 5/30/79. For additional information contact Sandra Sherman at 202/456-6286.

## ENERGY, DEPARTMENT OF

GAO has issued a report entitled "Oil and Gas Royalty Collections -- Serious Financial Management Problems Need Congressional Attention", (FGMSD-79-24, 4/13/79). The report notes the difficulties the Geological Survey is having with its existing collection system and comments on alternatives such as the adoption of industry accounting and reporting practices. One recommendation made by the report is a provision that cross-service audit agreements be established between the DOE and the Geological Survey when both are auditing the same commercial concern. Copies of this report are available from the GAO by calling 202/275-6241.

## FEDERAL ELECTION COMMISSION

Early estimates of the cost of public financing of House campaigns have been scaled down to almost half. FEC Chairman Joan Aikens reported last week to the House Administration Committee that the Commission's original projection of implementation costs of from \$35 million to a possible high of \$53 million if legislation enacting public financing were passed, could be cut to a range of \$22.2-\$29.7 million by the use of new assumptions and methodology supplied by the Committee. The Committee's system for cost estimates brings the price tag of the proposed legislation (HR 1) conveniently into the cost range claimed by the bill's supporters. The Commission's initial estimate was based on its independent perception of the legislation's cost. Essentially, HR 1 would provide for \$60,000 in Federal matching funds for each House candidate and limit their spending total to \$200,000. Of that total, no more than \$25,000 could come from personal funds and special interest contributions

would be limited to a range of \$30,000-\$40,000. Markup of the proposal by the Administration Committee is planned for early May.

#### FEDERAL HOME LOAN BANK BOARD

A model operating plan for savings and loan institutions (S&Ls) will be developed under a joint FHLBB-Commerce Department program. The purpose of the project is to assist minority-managed S&Ls. The model program will be tested in the field, analyzed by the AICPA, and then adjusted to meet the needs of minority associations. The program will also include on-site technical assistance for several minority associations, to be provided by an Alabama consulting firm; and the organization of a Minority Enterprise Small Business Investment Company (MESDIC) to promote funds for long-range programs in this area.

#### FEDERAL RESERVE BOARD

A U.S. Court of Appeals has ruled against competition between banks, savings and loan associations, and credit unions. The three-judge appeal panel criticized Federal regulatory authorities for illegally allowing "three separate and distinct types of financial institutions, created by Congress to serve separate needs, to rapidly become operations offering virtually identical services to the public, all without benefit of congressional consideration and statutory enactment." Some of the practices found by the court to be illegal were: credit union share drafts which depositors can make payable to third parties, critics had characterized this practice as the equivalent of interest-bearing checking accounts, forbidden by Federal law; automatic fund transfers which allowed commercial banks to transfer funds from savings accounts to checking accounts which had insufficient funds; and savings and loans operation of remote electronic service devices in areas far removed from the S&L location. Perhaps in recognition of the role played by the Federal regulatory authorities in allowing these practices to occur and grow, the court hinted that Congress might consider statutory authorization for these services to continue. The court noted that substantial capital investment has already occurred and that their ruling affected billions of dollars in deposit in the three types of financial institutions.

Classification of past due consumer installment loans held by commercial banks, to assist bank examiners, was the subject of a joint news release by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board. The agencies stated that their proposed bank examination policy would "promote improved and uniform treatment for the classification of delinquent consumer loans in portfolios of commercial banks. Comments on the proposal are requested by May 18, 1979 and can include comments on any implication for consumer credit ratings.

#### HEALTH, EDUCATION, AND WELFARE, DEPARTMENT OF

HR 2626, the President's proposal for hospital cost containment, was approved by the House Ways and Means Health Subcommittee on 4/25/79 by a vote of 6-3. Prior to passage, the Subcommittee adopted 11 amendments to the bill, including one strengthening the prohibition against changes in admissions policies to reduce the proportion of in-patients whose reimbursement to the hospital would be less than the full allowable rate and others requiring HEW to take into consideration higher prices and price increases in Alaska and Hawaii, and

provide special considerations to be given to certain regional specialty clinics. The Subcommittee rejected two amendments by Rep. James Martin (R-NC) that would have eased Congressional blocks on the imposition of the standby controls. Subcommittee Chairman Charles Rangel (D-NY) expressed hope for passage of the proposal by the full Committee before 5/15/79.

A proposal to clarify regulations on reasonable cost-related reimbursement for long term care facility services was issued recently by the Department (see the 4/18/79 Fed. Reg., pp.23095-99). The proposal, which sets forth audit and accounting standards, would delete the previous requirement that audits of such providers meet GAAS on the basis that these standards go beyond program need. Comments on the proposal are due by 6/18/79. For more information contact Milton Dezube at 202/245-8990.

Final rules on grant administration for Head Start and Native American programs have been published (see the 4/24/79 Fed. Reg., pp.24060-78). The rules implement recent revisions in the administrative provisions for virtually all HEW grants. Included in these rules are a definition of "independent auditor" as well as requirements for annual audits and accounting system certification for both the Head Start and the Native American programs. The rules became effective on 4/24/79. Further information is available by contacting D.C. Drohat (202/755-7480) or Casimer Wichlacz (202/426-4055).

#### LABOR, DEPARTMENT OF

A final regulation setting forth the circumstances under which certain annuity and custodial account programs afforded favorable tax treatment will not be subject to certain requirements of ERISA was published in the 4/20/79 Fed., Reg., pp.23525-28. Under this regulation, annuity or custodial accounts purchased in accordance with relevant provisions of ERISA are not "established or maintained" by an employer provided that: employee participation is voluntary; all rights under such contracts are enforceable solely by the employee or his beneficiary; employer involvement is limited to certain specified activities; and that the employer receives no consideration for services other than a reasonable reimbursement. The regulation is effective as of 1/1/75. Further information may be obtained by contacting Patricia Nitchie at 202/523-8518.

#### OFFICE OF MANAGEMENT AND BUDGET

Subcontracting under Federal contracts, would require the consideration of small business and small disadvantaged business, in all contracts of over \$10,000, according to recent changes in the Federal procurement regulations and the Defense Acquisition Regulation (see the 4/20/79 Fed. Reg., pp.23610-13). This policy would require that a contractor carry out this policy to the fullest extent consistent with the efficient performance of the particular contract, but would not include services which were personal in nature nor contracts which would be performed entirely outside the United States. Additionally, the contractor must be willing to cooperate with the SBA or the contracting agency to determine the extent of the contractor's compliance. These changes, implementing P.L. 95-507 which amended the Small Business Act and the Small Business Investment Act of 1958, became effective on 4/17/79. For additional information contact: Owen Birnbaum, Deputy Associate Administrator for Acquisition Law, 202/395-3455.

## SECURITIES AND EXCHANGE COMMISSION

Any commission decision on the proposed Federal securities code is "still months away" according to SEC Chairman Harold Williams. Speaking in Washington last week, Chairman Williams noted that the commission staff had completed discussions with the code's principal author Professor Louis Loss and would be drafting a detailed memo on the code for the commissioners. It is not expected that the code will be introduced in Congress until the SEC issues its recommendations on the code.

Refusal by the SEC to require companies to file comprehensive disclosure of the environmental impact of corporate activities has been upheld by the U.S. Court of Appeals for the District of Columbia (see National Resources Defense Council, et al., v. SEC, et al., decided 4/20/79). The appeals court reversed a lower court decision and upheld the SEC rules which require disclosure only of material financial effects of corporate compliance with environmental laws. The SEC had concluded that the costs to registrants and the administrative burdens of such comprehensive disclosure would be excessive.

A policy statement on the securities trading practices of registered investment companies has been issued by the SEC, (see Rel. No. IC-10666, 4/18/79). The economic effects and legal implications of reverse repurchase agreements, firm commitment agreements, and standby commitment agreements entered into by registered investment companies are discussed. The release includes the views of the Division of Investment Management regarding repurchase agreements entered into by registered investment companies with broker-dealers. It also includes a discussion of the valuation and accounting problems created by these securities trading practices. For further information contact Joseph Carney at 202/755-1753 or Richard Patrich at 202/376-8084.

## TREASURY, DEPARTMENT OF

Legislation that would limit the use of tax-exempt industrial development bonds for home mortgages has been introduced by the chairmen and ranking minority members of the House Ways and Means and Banking Committees. The bill, HR 3712, will be the subject of hearings before the Ways and Means Committee on 5/14 and 5/15/79. Chairman Al Ullman (D-Ore) stated that the increasing use of tax-exempt mortgage bonds is "poor public policy". He noted that the bonds add to labor and material costs, fuel inflation, drive up interest rates and are an ineffective way to administer a housing program. The bill would continue to permit the use of tax-exempt bonds to provide single family housing for veterans. Persons wishing to testify on HR 3172 should contact the Ways and Means Committee by 5/8/79.

119 potential schemes for defrauding the IRS have been detected since the IRS program for spotting fraudulent tax refunds was established in 1976, according to Commissioner Jerome Kurtz. Testifying at hearings held by the House Government Operations Commerce subcommittee, Kurtz conceded that the IRS system is not foolproof but noted the present system is "straining very hard at our computer capacity". He pointed out that the IRS system rates each tax return on unusual characteristics and checks W-2 forms with information supplied by employers.

Proposed rules on minimum participation standards for qualified retirement plans have been issued (see the 4/20/79 Fed. Reg., pp.23541-42). The



proposed rules cover participation standards as they apply to certain plans, a nondiscrimination coverage test and certain age and service requirements. Comments and a request for a public hearing are due by 6/19/79. For further information contact Kevin Cobb at 202/566-3430.

Final regulations on the approval of nonbank trustees of pension plans benefiting owner employees were published in the 4/20/79 Fed. Reg., pp.23519-24. The regulations outline requirements for qualification of trusts and plans benefiting owner-employees. They also include an audit requirement which provides for detailed audits of the fiduciary books and records to be made annually by a qualified public accountant. For more information contact George Baker at 202/566-3938.

SPECIAL: HIGH COURT RULES ON REVERSE FREEDOM OF INFORMATION

"The Freedom of Information Act is exclusively a disclosure statute" and does not afford private parties the right to prohibit federal agency disclosure of information, according to a recent Supreme Court decision in Chrysler Corporation v. Brown (77-922, 4/18/79). This decision may put an end to the trend of "reverse freedom of information" lawsuits wherein various corporations have attempted to block the release of information they have provided to the government. Under the Freedom of Information Act, the government may refuse third party requests for disclosure of "privileged or confidential" material but it is under no obligation to do so. Limited relief is still available in some circumstances under the Trade Secrets Act of 1948, which makes the disclosure of trade secrets by government employees a criminal offense, except as "authorized by law." Categories of information protected by the Trade Secrets Act include trade secrets, processes, operations, style of work, or apparatus and financial information. However, much of the information that corporations have attempted to protect by bringing suit against the government would not fall into these categories and, according to government sources, even if it did an agency would still release it under the Freedom of Information Act or other statutes authorizing disclosures or assigning the agency the power to authorize such disclosures. The current legal situation in regard to the confidentiality of data is best expressed by the conclusion of Justice William Rehnquist in his opinion for the court of the Freedom of Information Act: "by itself" the law protects" interest in confidentiality only to the extent that this interest is endorsed by the agency collecting the information."

## **AICPA** *Washington Report*

**American Institute of Certified Public Accountants**

1620 Eye Street, N.W., Washington, D.C. 20006